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ABSTRACT

Recent efforts of the World Bank to improve global economic problems are described, issues which will influence the role of the World Bank in the decade to come are discussed, and the Bank's future role is examined. Recent World Bank efforts to help developing nations include a lending program, project investments, analytical and advisory work, the encouragement of private investment, and the expansion of its co-financing approaches. Certain key issues will affect the Bank's future role. For example, the differing performances and prospects of the developing nations must be taken into account when framing international cooperative strategies. Other issues include the amount of commercial lending to Third World countries, difficulties faced by the heavily-indebted nations, international trade policies, and population growth. In the future, the Bank will support efforts to implement multi-year payment strategies for heavily-indebted countries, assure low-income countries a steady flow of external capital, and support adjustment efforts for middle-income nations through investment financing, economic analysis and dialogue, and lending. The Bank's most recent plan to help Sub-Saharan Africa is described. (RM)

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[ECONOMIC GROWTH AND DEVELOPMENT]

A.W. Clausen
September 24, 1984

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ADDRESS BY A. W. CLAUSEN TO THE BOARD OF GOVERNORS
OF THE WORLD BANK
AND
INTERNATIONAL FINANCE CORPORATION

Washington, D.C.
September 24, 1984

Mr. Chairman, Governors, Ladies and Gentlemen:

Welcome to these Annual Meetings.

And a special welcome to the distinguished delegates from our new member, Saint Christopher and Nevis.

Since last we gathered here a year ago, much progress has been made toward securing global economic recovery. The recovery is well under way in most industrial countries, and inflation has declined. Developing country economic performance in 1984 is likely to be better than in 1983, and improve even further in 1985.

Economic growth in the member countries of the Organization for Economic Cooperation and Development (OECD) is expected to top 4 percent this year. In the developing countries as a group, economic growth is now projected to rise from 1 percent in 1983 to 3.5 percent in 1984.

Industrial country growth in 1984 can be expected to stimulate an increase in developing country export volumes of about 7.5 percent this year. And that, together with a limited amount of net borrowing, will allow imports to grow by about 6.0 percent this year, so providing for some restoration of depleted reserves. This is heartening. But let us not forget that the strength and durability of this trend depends heavily on continued recovery in the industrial nations.

An increasing number of nations, both industrial and developing, have embarked on the tough policy reforms necessary to secure sustained non-inflationary growth. And our 1984 World Development Report notes that a stronger world economy can evolve in the decade ahead if realistic policy reforms are indeed widely implemented -- reforms to reduce public spending and balance-of-payments deficits, to stimulate the expansion of world trade, to encourage the flow of international capital, to secure structural economic changes and to eliminate barriers to economic efficiency. The agenda for action is both long and complex. But there must be no delay in implementing it.

Nor must there be any doubt, as the recovery takes hold, of the enormity of the problems still confronting the world economy, or of the extent of the obligations which all members of the international community must discharge in alleviating those problems.

The worst aspects of the debt crisis may be behind us. But many nations, as well as the global banking system, remain exposed to risks of high indebtedness which must be made more manageable.

Signs of a return to positive growth rates may be visible in some of the world's poorest nations. But in many of them, economic retrogression continues, and the dead hand of pervasive and persistent poverty still smothers the hopes of millions upon millions of our fellow human beings. Their appalling condition is intolerable to all of us on this earth!

Much has been done this past year to revive the engine of global growth, particularly through domestic actions. Much now remains to be done to strengthen mechanisms for the transmission of that growth, especially to the developing world. The years ahead call for still deeper and broader international cooperation. The inescapable fact of the increasing economic interdependence among nations, rich and poor, must be recognized in the policies and actions of major industrialized nations, especially in their multilateral endeavors. Without intensified international cooperation, we can neither ensure the easing of international political and economic strains, nor make a real contribution to reducing the scale of human misery. The fibers of multilateralism need to be woven into a stronger fabric. They must not be allowed to become tattered and torn.

The World Bank has sought to play a growing role in recent years in stimulating international cooperation. It has been effective and innovative in addressing the increasingly urgent and pressing problems of its developing member nations. And recognizing the necessity of still greater international cooperation to resolve common economic problems, the Bank must strive in the coming years to strengthen its coordinating, catalytic and advisory roles. But it cannot succeed without the determined support and commitment of its membership.

I earnestly hope that you, our shareholders, the financial leaders of our 147 member nations, will grasp the opportunity afforded by this Annual Meeting to reaffirm your solid commitment to increased international cooperation. I urge you to use this meeting to endorse our declared determination to see your institutions strengthened to handle the challenges ahead.

In this regard, I want first to outline the scope of our most recent efforts to respond effectively to the problems posed by today's global economic trends; secondly, to describe the trends that we see in the coming decade, and the environment in which we will have to operate; and thirdly, to put forward some proposals on how The World Bank's potential can be fully utilized through the remainder of this century.

In this last fiscal year, lending commitments by the International Bank for Reconstruction and Development, and the International Development Association, together with the investments of the International Finance Corporation, were slightly higher than total commitments of the previous year: $16.2 billion, compared to $15.3 billion. Aggregate lending figures for Fiscal Year 84 cannot convey the magnitude of the task involved in putting together a high quality lending program in the very difficult economic circumstances in which we have been operating.

A critical priority for us has been that of assisting the poorest developing nations, many of whom are, or have been, suffering the most from the global economic turbulence of the early 1980s. The already serious problems weighing on Sub-Saharan Africa have been compounded by the most damaging drought in fifteen years. The continuing fall in per capita incomes in many of these nations demands firm and immediate action on the part of all involved to reverse the decline. During this last year, we have sought to increase our efforts to help our poorest member countries address these problems. We have sought to help them through sound project investments, and through advice and encouragement in support of their ambitious and difficult programs of policy reforms.

Our operations in Sub-Saharan Africa, and in the poorest nations of Asia, have continued to increase. Today some 93 percent of all IDA lending goes to countries with average per capita annual incomes of less than $410; a figure representing a level of deprivation which is completely unacceptable. In our last fiscal year total IDA credits amounted to $3.6 billion, about 7 percent more than the previous year. Unfortunately, as of right now it is unlikely that we will be able to commit much more than $3 billion in the current fiscal year, which amounts to a drop of 20 percent in nominal terms, and considerably more in real terms. But Sub-Saharan Africa will remain our highest IDA priority, despite the increasing scarcity of concessional resources.

Just a few months ago our Executive Board approved a resolution for a $9 billion seventh IDA replenishment. I need scarcely remind this meeting how great and pressing are the needs of the poorest nations for concessional finance and how disappointed we are that it was not possible to agree on a larger IDA replenishment. It is essential that IDA's donor nations move to secure without delay the legislative approvals necessary to trigger the advance contribution scheme for IDA 7.

At the end of the IDA 7 negotiations we were given a mandate by the great majority of donor nations to try to obtain supplemental concessional funds. Our quest has not, as yet, been fruitful. And this is deeply disappointing. We shall follow the suggestion of donors and raise this matter again when we conduct a mid-term review of IDA 7 next year. But it is crucial that our donor members recognize just how effective an institution IDA is, and how acute the need is for a much larger volume of concessional funds in the poorest nations. That is why we will continue to explore with individual donors the opportunities for obtaining additional resources.

Wherever we have prudently been able to do so, we have provided a number of lower income member nations with a blend of IDA and IBRD funds. We are gratified indeed that we have been able to provide significant IBRD assistance to such very large nations as China and India -- nations whose international credit standing has increased and whose governments have been pursuing policies and programs which have resulted in impressive rates of economic growth in recent times. But our continuing ability to bring meaningful assistance to these large countries is heavily dependent on our ability to provide an adequate level of IDA resources as well.

The condition of the more creditworthy nations, fully eligible for IBRD loans, has commanded no less of our attention. A number of these nations, particularly in East Asia, have ridden out the recent recession with impressive resilience, largely because they have adhered to and implemented appropriate economic policies. They have adopted outward-looking strategies with flexible economic management, and increasingly realistic domestic pricing structures -- factors which we believe have significantly contributed to another year of encouraging economic progress for these countries.

Several other developing economies in Latin America and Southern Europe, which had grown rapidly in the Seventies, have continued to struggle with their heavy indebtedness and are still undergoing a severe process of adjustment. For most of them there is a long road to travel before they achieve growth rates comparable to those they achieved in the Sixties and Seventies. A few are still experiencing stagnation or decline in their GDP growth rates. Others -- Mexico most notably -- have managed, through the adjustment process, to begin the long and hard climb back to stability and, we hope, prosperity.

Helping nations with their difficult policy adjustments is a major feature of the Bank's work. To be effective we have had to be particularly flexible. As substantial changes in policy priorities were acted upon, we had to move with speed to reshape many of our lending programs. We were able, in the course of the year, to revise fully forty percent of our IBRD lending program. The swiftness and efficiency of such actions are a tribute to the Bank's very capable and highly professional staff.

Total IBRD lending amounted to $11.9 billion in the last fiscal year. But let me stress that we are more concerned with the quality of our lending than with its quantity. And we believe that our analytical and advisory work is at least as important as the precise volume of resources we provide to our borrowing member countries.

We have been acutely aware of the need to continue to strengthen and broaden the services provided to our borrowing member countries. In recent times we have introduced special action programs; increased our lending in support of policy reforms, developing both structural adjustment and sector lending; we have broadened sector and country economic analysis; increased lending for technical assistance; extended our research, for example, in the trade and debt areas; and we have broadened the activities of the Economic Development Institute.

At the same time we have been strengthening IBRD's financial base. We borrowed a total of $9.8 billion in the last fiscal year, and this year our borrowing program must be larger still. Cash and liquid investments increased to almost $15 billion by the end of fiscal year 1984, while IBRD recorded a net profit of some $600 million. The recognition that our financial policies have been prudent and sound is best reflected in continued investor enthusiasm for our new market offerings. In a period of generally rising interest rates, we have been able to lower our lending rate progressively from 10.4 percent at the start of the fiscal year '84 to 9.89 percent for the start of fiscal '85. And I am confident that we will be able to reduce it further in the year ahead.

In addition, the Board of Governors adopted a resolution in August for an $8.4 billion selective increase in the IBRD's capital. We are very grateful for this action. Mr. Chairman, this action, as you know, involved important changes in the relative positions of major shareholders within the IBRD. We are very pleased to welcome Japan as our second-ranking shareholder, and greatly appreciate Japan's expressed commitment to play an ever more supportive role in the Bank. Let me add a special word of gratitude to those shareholders whose generous actions made these changes possible.

A critical element in our efforts to become still more effective and innovative in recent years has been our quest to strengthen the catalytic roles of your institutions, notably with regard to stimulating private investment flows to developing nations.

IFC has worked vigorously to help meet the growing need for direct foreign private investment in its developing member countries. In the last year IFC approved 62 projects totalling $700 million in gross investment and an estimated $2.5 billion in total project costs. In addition to establishing new private enterprise and production capacity, IFC's efforts have helped existing private enterprise overcome the effects of the prolonged economic recession, through modernizing and restructuring businesses to improve productivity and adjust to price and market changes.

The Board of Directors has recently reviewed a new Five Year Program and approved a resolution asking the Governors to authorize a $650 million increase in the Corporation's capital. We are very grateful for that action. In addition to increasing its corporate restructuring assistance under the new program, the Corporation will give greater attention to the development of domestic financial markets and institutions and diversify its activities into new sectors, including energy exploration. Complementing The World Bank's efforts in Sub-Saharan Africa, IFC will expand significantly its investment and technical assistance activities in this region.

We urge swift approval by IFC Governors of the recommended capital increase so that the Corporation can move ahead in becoming a still more effective catalyst for private sector development.

Meanwhile, The World Bank has continued to develop and expand its co-financing approaches. Global conditions have been particularly difficult, and the amount of co-financing achieved in Fiscal Year 84 falls far short of what we would have liked to achieve. Even so, nearly $1 billion of commercial bank resources were mobilized over the last year through the B-loan pilot program, representing considerably more than 10 percent of new voluntary lending to the Third World by such banks in this period. We are willing to try any co-financing techniques with banks, export-credit agencies and official assistance agencies, which will meet their needs and ours, in the effort to stimulate the flow of their resources to high priority projects in developing nations.

To encourage still greater private investment flows to developing countries, we have sought to develop a new plan for the establishment of a Multilateral Investment Guarantee Agency. We are discussing this now with our Executive Board, and we will soon start a process of consultation with our members on its details. Such an agency would guarantee investments emanating from other member countries against non-commercial risks. It would also furnish information on investment opportunities, prepare studies and provide advice on country policies on foreign investment. We see this agency as complementing the array of national and regional investment guarantee agencies which already exist.

Over the last year we have continued to place the highest priority in our lending program on the agriculture and rural development and energy sectors. We have been particularly mindful of, and concerned about, the environmental issues of development, and of the need to pay more attention to the vital roles that women play in the development process. We have sought to intensify our cooperation with other agencies, official and non-governmental, seeking to use our comparative advantages in partnership with theirs. We intend to develop further such partnerships. Only on a cooperative basis can the struggle against poverty and for economic and social progress be effectively waged.

Clearly much remains to be done to ensure greater levels of private and public capital flows to developing countries. They are essential to the restoration of the development momentum which was so decisively broken by the global recession, and to the long-term prospects of the developing economies. But let me stress that the developing world's problems cannot, and will not, be solved solely by rising levels of external assistance. The decisive factor will be the individual developing country's own commitment to appropriate changes in domestic policy. Help begins at home!

As we have consistently emphasized, there are, of course, no quick and easy solutions to the major problems confronting the developing countries. In the fields of trade, debt, economic management, and population, there is a long haul ahead of them. And that means a long haul ahead of the international community as a whole. In order, therefore, to position ourselves to be of maximum help to our developing member countries, we have been taking a hard look at the medium-term environment in which we will have to operate, through the mid-1990s. Let me share with you, then, some thoughts on the key issues that we believe must influence the shaping of the role of The World Bank in the decade to come.

In looking ahead to see how the Bank can best respond to the needs of our borrowing members in the next decade, we have tried to analyze the economic prospects that developing countries might face under various assumptions. That analysis is set out at length in our 1984 World Development Report, and the main message is clear: whatever the domestic efforts of our borrowing members, the nature of the prospects facing them still depends heavily on the courses of action which the industrialized world decides to pursue.

We cannot predict which road the industrialized world will take -- the road of reform, which we believe is essential, or the road of "business as usual," which we believe exposes the world to considerable risk. But one thing is certain: whichever road is taken, the economic environment in which the developing countries will be struggling to grow in the late Eighties and early Nineties will be significantly different from that of the Seventies. And in some respects it is almost certain to be worse.

Let me focus on some of the key issues.

First, the developing world is not a monolith. Developing countries exhibit wide differences in performance and prospects between different groups. These may intensify, and within these distinct groups starker differences are likely to emerge. For example, in Sub-Saharan Africa, it is probable that annual average growth rates will be less than 3 percent, with some nations registering no growth at all. Under optimistic assumptions, we see possible average annual growth rates for middle-income countries exceeding 6 percent. But within this group there will still be some highly indebted nations which will register a far lower growth rate. These ever widening differences in prospects and performance must be fully taken into account in framing international cooperative strategies, and particularly the operating strategies of the Bank, in the decade ahead.

A second key issue concerns commercial lending to the Third World. Growth in lending by the commercial banks will be substantially below the exceptional annual average rates of 19 percent seen in the 1973 to 1980 period. At best we expect private lending to remain constant in real terms between now and 1995. At worst, it might fall by as much as 40 or 50 percent.

We must expect creditor confidence, particularly with regard to the heavily indebted countries, to remain fragile for some time to come. And under such circumstances it is clear that all parties would benefit from a more realistic framework for commercial lending and borrowing than existed in the free-wheeling atmosphere of the Seventies.

Substantial net capital inflows to the middle-income developing nations are an essential requirement to revive and then secure growth. With the prospect of reduced rates of commercial lending growth, it will be essential to achieve increases in official lending and in direct private investment.

A third key point is the reality that the group of now heavily indebted countries will continue to struggle through extremely difficult circumstances for the foreseeable future. Even the combination of expanding world trade, a significant reduction in real interest rates, and a steady pursuit of sound economic and financial policies in these countries -- even that combination would not permit per capita consumption in some of them to regain for a number of years ahead the levels enjoyed in the Seventies.

And what lies ahead for the heavily indebted countries if there is no such combination of positive factors? What if interest rates are rising instead of falling? What if capital flows continue to stagnate? What if protectionist barriers are being further fortified instead of dismantled? What if the quality of domestic economic management and performance is in decline rather than being strengthened?

Any or all such reversals will further delay the resolution of the serious debt problem of these countries and weaken their capacity to move towards restored non-inflationary growth.

The heavily-indebted nations of Latin America are today engaged in a painful and courageous effort to adjust. The drastic adjustments undertaken by Mexico have succeeded remarkably in strengthening the country's external position, slowing the domestic price inflation, and improving economic prospects generally. It has been an impressive performance. And the resulting agreement with Mexico's creditors on a multi-year refinancing arrangement is as logical as it is merited. Over time, there must be a general shift in debt-rescheduling programs for the heavily indebted nations away from year-by-year approaches toward this type of more desirable multi-year agreement.

Brazil's massive adjustment effort produced a significant turnaround in 1983, with a halving of the current account balance of payments deficit and a sharp deceleration in the growth of external borrowing. Exports expanded, and the country's 1984 export performance may well prove outstanding. But the cost of nearly four years of adjustment has been high in terms of output and employment foregone.

Recovery in the heavily indebted countries is, and will continue to be, uneven and fragile. The continued political acceptability of tough adjustment measures will depend on the successful transition from the crisis management phase to the recovery phase in which there is a resumption of investment and growth. Such a transition will be delicate, for unless policy and institutional reforms are soundly anchored, the move towards renewed growth could swiftly exacerbate imbalances. We should be in no doubt that effecting such a transition will take a major commitment over an extended period.

If ever there was a case for saying "easier said than done," it is this. We dare not underestimate the complexity of the adjustment transition period that now lies before us. The process of adjustment in the heavily indebted countries will be uneven, and we must expect random shocks and setbacks. Flexible and creative management approaches must therefore become part of an effective adjustment strategy for the heavily indebted countries, and for those that assist these nations.

Acute debt-servicing difficulties are not, however, the exclusive province of those middle-income countries recognized as the most heavily indebted. Other countries, in Sub-Saharan Africa for example, have accumulated debt which, though small in absolute terms, may still strain their limited capacity to handle it, whether or not it is large in relation to exports and GDP. For these nations, resolving the debt crisis will demand far greater flows of external capital at affordable rates than currently appear to be in prospect.

Into the mid-1990s, the prospects for increases in official concessional finance are bleak. But these prospects <u>can</u> and <u>must</u> be changed. Flows of concessional finance, through both multilateral and bilateral channels, must be expanded and made more effective if the enormous problems facing the poorest nations are to be realistically tackled.

Another key issue which will shape our perspective lies in the field of trade. The trading environment has changed significantly in recent years, and not for the better. The persistent trend towards more open trade which we witnessed until the late Seventies has given way to increasing protectionist pressures and mounting trade barriers.

The dangers of a continuation of the protectionist trend are abundantly evident. An era of sustained real growth for the industrialized countries, as well as recovery for the developing countries, is going to be a mere pipedream unless trade liberalization is revived. Failure, however, by the industrial nations to adopt policies that more firmly secure non-inflationary growth in coming years will inevitably generate still graver protectionist pressures. Under such circumstances the many heavily indebted countries would then be unable to continue servicing their debt without a massive restructuring of existing obligations. And for all developing nations such a turn of events would deal a crushing blow at efforts to overcome today's difficulties and move forward to a more prosperous era.

It is now of crucial importance that governments stop simply making general declarations of interest and start taking concrete steps to liberalize trade before what was achieved in the Sixties and Seventies is more than offset by what is being perpetrated in the Eighties. The launching of a new round of multilateral trade negotiations, under the auspices of the GATT, and focused in particular on non-tariff barriers and issues of concern to the developing countries, cannot come too soon. In the absence of such negotiations, and with continuing protectionist pressures, the medium-term trade environment will be fraught with uncertainties.

Of the many other factors that have fundamental effects on development trends, permit me to single out one whose impact in the long-term will be decided by what is done or not done in the short- and medium-term: population growth.

In the World Development Report and in recent statements we have made in Nairobi and in Mexico City, the overwhelming evidence was put together to demonstrate that unless rapid action is taken in many nations to slow population growth, then vast numbers of people of future generations will be locked into intolerable poverty. The need is to act now in education, primary health care, family planning, and in improving women's opportunities, so as to bring a sustained decline in fertility over the long run. A failure to work <u>now</u> towards correcting the current mismatch between population and income-producing ability will ensure that poverty and rapid population growth will continue to reinforce each other far into the future.

As we look ahead to the global economic environment confronting us, we are in no doubt that priority action must be taken nationally and internationally in three broad areas:

- o improving economic policy and performance in all countries, developed and developing alike;

- liberalizing trade; and

- reviving capital flows.

How the institutions of The World Bank can best contribute to the effort to secure a more vibrant world economy in coming years is the subject of detailed discussions now underway with your Executive Board. We are reviewing every element in the future evolution of your institutions to determine their most effective roles for the remainder of this century in the light of the broad economic trends that we perceive.

This is a challenging and exciting undertaking. We are not deviating in this effort from our most basic objectives: to assist in the attainment of economic and social progress in our developing member countries and to work to alleviate poverty in those countries. Since the Bank went into business almost 40 years ago, there has been a continuing evolution of the institution, enabling it to become ever more effective in assisting developing nations in rapidly changing global economic conditions. That evolutionary process has quickened in most recent times. The moment is therefore ripe for a comprehensive review of our strategies. In particular, we have to recognize three new facts of life about the Bank's relationship with the international community.

First, as our assessment of the medium-term environment confirms, the Bank's borrowers are becoming increasingly differentiated in their economic performance and prospects, creditworthiness, and demand for Bank assistance;

Second, the Bank's ability to respond effectively is increasingly affected by its relations with other lenders; and

Third, there are increasing uncertainties over the volume of resources we can mobilize and how much we can lend.

Our future roles will be as much determined by external forces as by internal decisions, and this makes it all the more important that we move ahead in establishing a consensus in this effort. The evolution of your institutions in recent years, combined with the evident trends that will shape the environment in the decade ahead, already provide us with a basis for outlining the key themes upon which we need to focus.

Let us look first at our capacity to respond to the needs of our middle-income developing countries, and then turn to the needs of our low-income members.

Adjustment for all nations, including those middle-income nations which have done relatively well in recent times, will be the order of the day in the period ahead. Adjustment, as I have earlier stressed, is no easy task. The World Bank's role is to support adjustment efforts through investment financing, through economic analysis and dialogue, and through lending that supports policy change and institutional reforms. Our lending is aimed at longer-term structural changes such as appropriate pricing in the agricultural and energy sectors, and eliminating biases in the incentive system against exports.

For many of these middle-income nations, we anticipate that the need for such assistance will not recede until they are sufficiently strong to be able to depend exclusively on the world's financial markets.

With regard to the most heavily indebted middle-income developing nations our discussions so far have focused on a number of critical issues, including:

- o the Bank's prospective role as a financial intermediary;
- o the nature and extent of the Bank's policy dialogue; and
- o the scope for an extended catalytic role for the Bank.

Despite the underlying and enduring economic strength of many of the heavily-indebted countries, the weighty burden of debt will constrain growth for the foreseeable future. Accordingly, we see The World Bank as having a continuing role in the heavily-indebted middle-income countries in support of efforts to develop and implement multi-year strategies that combine continuing adjustment with a restoration of investment and growth. And toward that restoration, we will need to encourage measures that strengthen creditworthiness and that mobilize new external resources. The progress that is being made in restructuring existing debt is very encouraging. But it does not solve the problem of financing future growth. That is why the mobilization of new resources is so critical. And that is why our relationship with these countries should be that of a partner and catalyst, helping and encouraging them to formulate and implement policies conducive to growth, improved creditworthiness, and flows of new funds.

Bank assistance in coming years must therefore be supportive of adjustment measures which are rooted in institutional change and policy reform. We must be ready to make loans to support major policy changes at critical times, with a measurable degree of additionality at the country level. At the same time we must, of course, continue to provide project assistance -- assistance which is so vital to the strengthening of their prospects for investment and long-term growth.

Thus it goes without saying that heightened emphasis on policy-based lending implies no sudden sea-change in our role. It is a gradual, evolutionary development which preserves our traditional strengths while affording us greater flexibility in providing the kinds of support our member countries urgently need now and are likely to continue to need in the decade ahead. By no means will this evolutionary change dilute the essence of the Bank's role as the primary financier of long-term development investment.

A major form of support that these middle-income countries seek is related to their heavy dependence on private sources of finance. And here the Bank must expand its catalytic role in support of renewed, sustained flows of commercial capital.

Co-financing is a key element in this context. A major objective of the Bank's co-financing efforts is to induce a flow of commercial funds on the long maturities appropriate for development finance. Our B-loan pilot program has established a base for future evolution of such instruments, which we must encourage to the full. In this regard we need to further examine possible uses of the IBRD's guarantee authority.

Complementary to the catalytic role that IFC plays in promoting direct private investment in the developing countries, the Bank is anxious to assist in strengthening the incentive framework for private investors. Helping develop basic infrastructure that supports private sector activity has long been a feature of Bank operations. Our studies and our policy discussions with member governments can help point the way to a strengthening of the incentive framework. And a multilateral investment guarantee facility could not only bring back foreign investors deterred by losses due to currency controls, but also provide the assurances necessary for new investors. As we pursue our discussions of the Bank's future role we shall be much mindful of these considerations.

The expanding role of the International Centre for Settlement of Investment Disputes (ICSID) should also contribute to a strengthening of the incentive framework for private investors. The widening of the geographical application of the ICSID Convention, which we are witnessing, can do much to promote an atmosphere of mutual confidence between investors and states.

In many respects the development of the Bank's catalytic instruments is still in its infancy. In the interests of helping expand the flow of commercial capital on appropriate terms to our middle-income member countries, we must vigorously continue our exploration of the Bank's catalytic potential.

At the other end of the spectrum of our diverse borrowing members are the low-income countries. It is imperative that these countries be assured of a steady flow of external capital on appropriate terms. The severe constraints on the availability of concessional finance, which is, for the most part, what they urgently require, poses an extremely serious threat to many of these countries. The immense effort to restore economic growth, alleviate poverty, and hasten social progress, is being undermined by the gross inadequacy of external assistance on concessional terms.

In Asia today, whether in the two giants of the region, China and India, or in countries such as Bangladesh or Burma, to mention but a few, the struggle to alleviate poverty is a matter of deepest concern to us all. A wide range of policy changes are clearly needed in the low-income countries of the region. But equally clearly, such changes must be supported with a steady flow of capital of the type that IDA provides.

India's recent economic performance has been impressive indeed and the momentum towards substantial development progress is now firmly in place. The overwhelming share of its investment program is financed from its own resources, but external capital, nevertheless, plays a crucial role. To maintain the current momentum, without risking a sharp increase in its debt-servicing ratio, demands the continued flow of concessional funds to India. As in China, flows of concessional assistance to India measured on any indicator of equity or need are very low indeed. India will continue to require, for some years to come, both IDA and IBRD assistance, and the international community must strive to meet her needs if the substantial economic gains that India has achieved over the last quarter century are not to be eroded.

We take a similar view with regard to China. Over the next five to ten years, China's investment requirements for the expansion of its transport infrastructure, for an increase in energy and raw materials production, for modernization of industry, and for maintaining adequate growth in agriculture will be very large. China will not be able to rely alone on the capital markets for the external finance that will be needed. Official sources of finance, such as The World Bank's lending program in China, will be critical to meeting her needs. And a flow of concessional funds, such as provided by IDA, and especially in support of agricultural and rural development, is essential.

But nowhere is concessional assistance a more crucial element than in the effort to meet the deepening crisis in Sub-Saharan Africa, The World Bank's top regional priority. Let me now say something about that continuing crisis and the responses we feel are required.

We have been called upon by the African nations and by many others to develop an action program for Sub-Saharan Africa that squarely addresses its severe human, social and economic problems. We have responded to these calls and have published our program here this week.

Our report calls for urgent action by the international community, and we are keen to join with other multilateral agencies, with African regional organizations, with bilateral and non-governmental bodies, to move forward to implement a vigorous program in the months and years ahead.

Consultations in the preparation of this program have shown us a clearly emerging consensus on what needs to be done to resume sustained growth in the region after more than a decade of not just stagnation, but actual retrogression. Views on timing and priorities may differ. But delay in taking action can no longer be justified on the grounds of major disagreements in diagnosis and prescription.

The proposed actions are placed in a framework designed to increase the confidence of both African governments and the international community that a sustained common effort can and will produce results. The impact of some actions can be immediate; others will take longer to produce their benefits.

We are not forgetting for one moment that international action is urgently needed to help meet emergency requirements for food aid and other humanitarian assistance. The recommendations in this report deal with issues of development strategy and policy. But as such they are complementary and additional to the emergency actions to be taken on the humanitarian front.

The program consists of six main elements:

- Design and implementation of national rehabilitation and development programs by African governments to increase the efficiency of the use of financial and human resources;

- Greater support by donors for programs which address these long-term development constraints;

- Increased donor flexibility and financing for policy reforms;

- Higher priority in funding programs for operations and maintenance to fully utilize existing investments and infrastructure;

- More effective use of external assistance through improved donor coordination;

- o Action by donors to maintain net capital flows to Sub-Saharan Africa at least at the 1980-82 levels.

The successful implementation of the report's recommendations will depend upon the combined efforts of African governments and the international community. The World Bank is prepared to take a major role in a shared and coordinated effort to provide increased support to African development programs. And we can do so working closely with African governments, donors, and international organizations.

There are a number of key elements to this more active Bank role:

1. Through our policy dialogue, research, and technical assistance, we plan to expand our efforts to help African governments analyze critical development issues and design and implement national action programs.

2. We will further expand our help to governments to finance and implement programs of economic policy reform. There will be an increasing need for fast-disbursing assistance where programs of improved policy management are being pursued. We are prepared to seek and, if desirable, administer additional donor financing for this purpose.

3. The Bank will develop still more substantially its assistance for population, health and education programs, and stimulate broader donor commitment to such activities.

4. We will continue to finance substantial programs of rehabilitation, operations, and maintenance of existing infrastructure.

5. We will increase our efforts to encourage the involvement of other donors in co-financing as a means of increasing resource flows. By this means we can also help avoid conflicting policy prescriptions and ease the burden on recipient countries and donors alike.

6. We will strengthen the nine African country aid coordination groups that we already chair, and organize additional consultative groups where the recipient government is committed to the development and implementation of coherent programs and where the support of aid donors can be anticipated. Furthermore, in our Consultative Groups, we shall seek to ensure firm donor commitments to match the specific development undertakings of the country.

7. The Bank will expand its field offices in Sub-Saharan Africa and the resources it devotes to directly strengthen the analytical and advisory assistance it provides to governments.

8. Finally, the Bank is prepared to play an important part in the provision of the capital flows proposed in the report. Sub-Saharan Africa is already a high priority region for the allocation of IDA funds. There is a critical need to make sure that the projected decline in external capital flows to this region does not occur.

Meanwhile, IBRD lending to Sub-Saharan countries will be expanded to the maximum level consistent with creditworthiness considerations. At the same time, IFC's new five-year program provides for increased support for private sector development in this region.

This new report is a call for action. The World Bank is ready to act. We are keen to play the fullest role in implementing a program that we believe can launch Sub-Saharan Africa towards meaningful and sustained economic and social progress.

Mr. Chairman:

I believe that all of us here can agree that your institutions can be said to have acquitted themselves well; particularly so in view of the difficult circumstances in which they have had to work in recent times. And for that, much credit is due to our exceptionally able and dedicated staff. But it is clear that there are many areas where refinements and innovations in The World Bank's roles can make much more effective our participation in the international effort to accelerate economic and social progress in the developing nations.

The problems that we have to face together in the years ahead demand still closer and more extensive international cooperation. As Benjamin Franklin warned: "We must all hang together or assuredly we shall all hang separately." The World Bank, in its non-political position as a multilateral institution, and with its skills and its strengths, has been entrusted, together with our sister and close partner institution, the International Monetary Fund, with a central role in the system of multilateral cooperation. We must keep striving to strengthen that cooperation, and we are determined to secure it. The Bank must serve as an effective partner to governments and private entities -- an even more effective partner than it has been in the past.

It is with such considerations in mind that we are pursuing with vigor our consultations on the Bank's future role. Today we ask for the wholehearted support and encouragement of you, our shareholders, in that effort. We ask that you contribute with constructive ideas in our discussions in the coming weeks and that when, in the near future, the time comes for decisions, that you act with speed, that you support bold actions, that you encourage initiatives that strengthen your institutions; initiatives that will permit them to be still more flexible, responsive and relevant in the ways in which they strive to address urgent issues.

Enhanced strength means providing adequate resources to these institutions, so that they have the capacity to respond to changing circumstances and varying needs; so that they will be reliable long-term partners in the development process.

That means, of course, a much stronger IDA. It means a stronger IFC too, and that has been recommended to you by your Executive Board. For the IBRD, it means that we must be mindful of the need to reach a consensus on proposals for a General Capital Increase. The size of that increase remains a matter for discussion based on what our membership decides the Bank should do, and what it needs to do it.

But enhanced financial strength alone is clearly not enough. The ultimate purpose of greater financial capacity will be vitiated if we are not innovative in the use of that greater capacity. Our contribution to the development effort is many faceted: we mobilize, directly or as catalyst, resources for productive investment; we seek to provide high quality analysis and advice; we offer our services as international coordinators of assistance; we seek outstanding scholarship in our research; we use our external relations capacity to the full to enhance global understanding of the challenges of development. But in all these areas The World Bank can do still more, if increased strength is matched with increased innovation.

We need your encouragement and support to make that match. Increased strength and increased innovation will be the keys to the Bank's effectiveness as a major participant in the action program for Sub-Saharan Africa. Strength and innovation will be the keys to success in our efforts to assist institutional change and the resumption of growth and investment in the heavily indebted countries. In short, a strong, innovative Bank can really make a substantial difference to the international cooperative effort to accelerate Third World development. And that cooperative effort must not be allowed to falter for lack of faith in our collective ability to succeed.

For there is no acceptable reason why we should fail. Here in this hall today is an assembly of men and women with the greatest experience and understanding of the problems, and the clearest recognition of the solutions, as has ever been convened. And I venture to suggest that all of us here are of one mind on this: that the economic situation, though serious in much of the developing world, is categorically not hopeless. To think otherwise is to declare a vote of no confidence in ourselves; to reject all belief in the power of ingenuity and determination to meet the challenge; and, worst of all, to dash the hopes of a better life for millions upon millions of our fellow human beings.

Twenty years ago, Arnold Toynbee said:

> "Our age will be well remembered not for its horrifying crimes nor its astonishing inventions, but because it is the first generation since the dawn of history in which mankind dared to believe it practical to make the benefits of civilization available to the whole human race."

Entering the fifth decade after the historic meeting at Bretton Woods, we may well ponder on these words. The founding fathers of these institutions dared to believe it practical to bring order and progress to a global economy in massive disarray, and to give development a chance.

In the face of the huge challenges of the coming decade, we too must dare to believe it practical to alleviate poverty and secure economic and social progress in the developing world.

We can make an outstanding contribution to that noble endeavor, if our institutions are strong and innovative.

We ask your encouragement and support in making them so.

Thank you.

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